

Public-Private Partnerships

Overview Discussion for the Fix My Streets Financial Working Group

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John R. Speed, Senior P3 Advisor

What is a Public-Private Partnership?

A Public Private Partnership (P3) is a delivery method that brings the public and private sector together to share the risk and rewards of delivering and/or maintaining public infrastructure assets. Successful P3 projects deliver the public *enhanced value for investment.

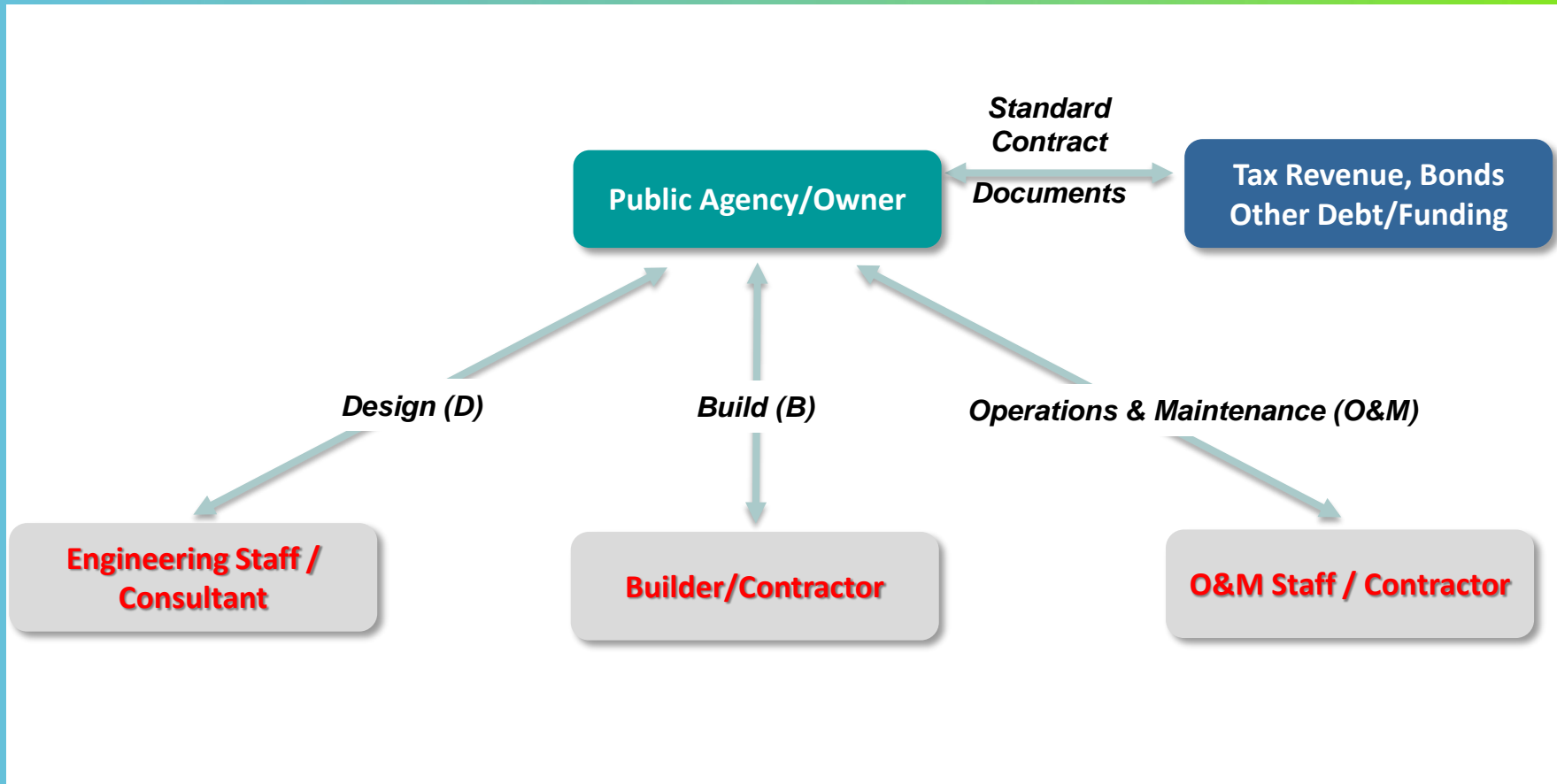
*the project meets all of the performance requirements at a lower life-cycle cost than other delivery methods

What is a Public-Private Partnership?

- Long-term contract between owner and private consortium
- Public agency retains ownership and controls quality and performance through payments, penalties and/or incentives – a contractual payment mechanism.
- Private consortium assigned responsibility to design, build, finance, operate and/or maintain (DBFOM)
- Minimum delivery, performance and quality requirements are set at the beginning
- Risks are assigned to the party best able to handle the risk.

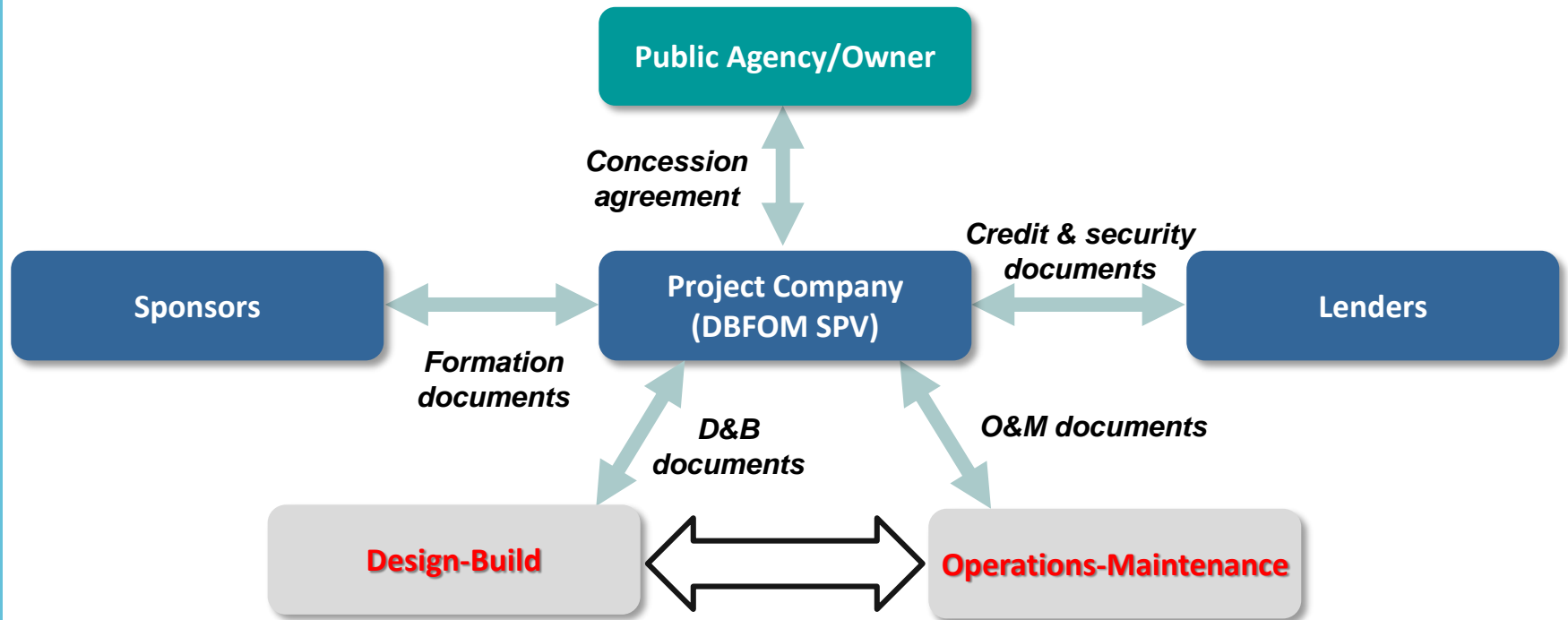
EXAMPLE

Traditional Design-Bid-Build



EXAMPLE

Typical P3 Contracting Model



EXAMPLE

How a P3 Agreement Might Look In NOLA

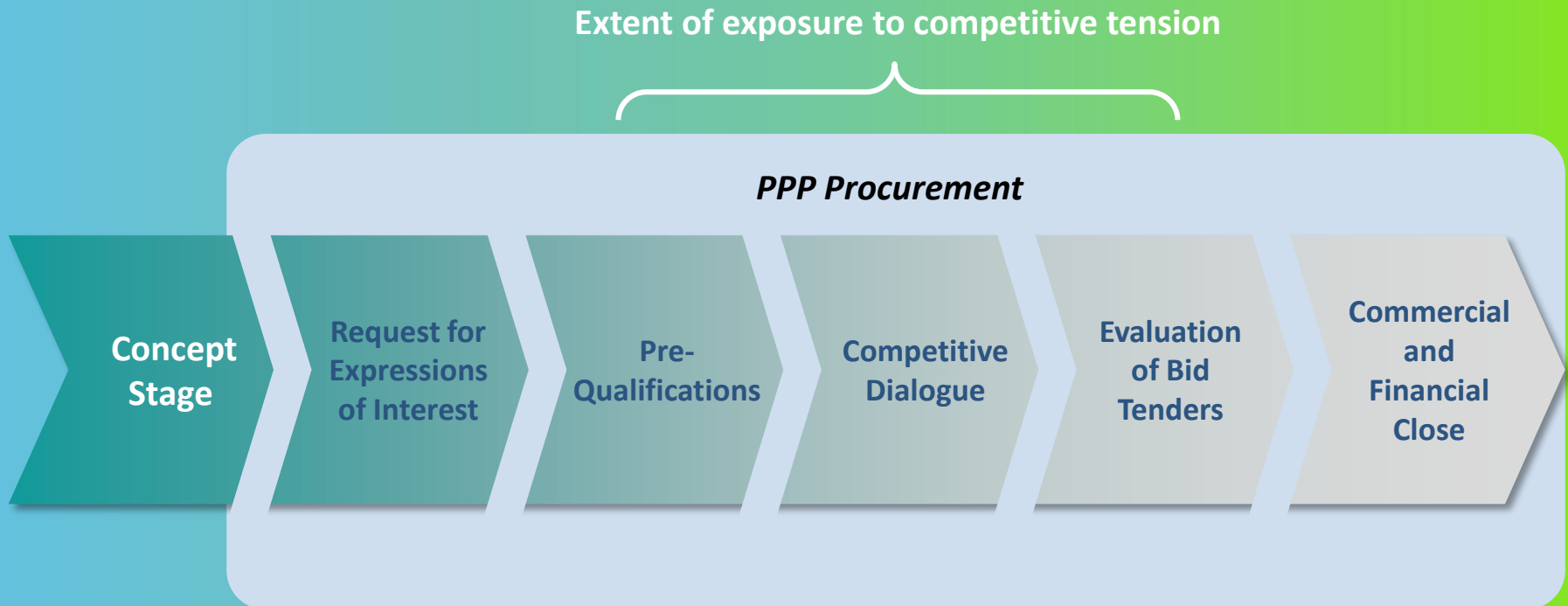
Let's say that the City/Parish procurement team:

- Establishes a project scope and risk profile for a DBFOM for all water, sewer and roads in one or two wards
- Contract requires private consortium to build all required infrastructure over the initial few years.
- Private consortium must provide financing for some – or all – of the initial construction.
- Private consortium must provide O&M for a much longer period (20, 30 or maybe even 40 years).

EXAMPLE

How a P3 Agreement Might Look In NOLA

- City/Parish look for a private partner through a competitive procurement process



EXAMPLE

How a P3 Agreement Might Look In NOLA

City/Parish would typically:

- **Make milestone payments to help offset initial costs**
- **Allow the private partner to pay for initial capital costs over time as part of a regular O&M payment**
- **Make annual/monthly payments for O&M work**
- **Monitor compliance with the contract over the lifetime of the agreement**

Considerations for P3 Projects

Nature of the Proposed Project

- Part of capital plan
 - Demonstrable need
 - Affordability
 - Provides opportunities for
- Technical innovation
 - Enhanced value
 - Economies of scale
 - Risk transfer

Private Sector's Ability to Partner

- Current market liquidity
 - Private interest rates
 - Return justifies risk
 - Suitable size
- Risk tolerance
 - Complexity of construction
 - Ability to leverage funding tools (TIFIA, PABs, etc.)

Regulatory, Legal and Political Feasibility

- Regulatory risks, issues, or flexibility
 - Need for new or change in legislation
 - Environmental issues
- Political risks or issues
 - Accounting and tax treatment
 - Land ownership issues

Common Benefits of P3 Agreements

Spreads Infrastructure Cost Over Its Life Cycle

- P3s give government a flexible tool for spreading the cost of infrastructure investment over the lifetime of the asset.

Long-term O&M Contracts Ensure Asset Quality

- Well-planned P3 agreements usually include Operations and Maintenance contracts lasting between 15 and 30 years – or even longer. Similar to an extended warranty, an O&M contract transfers risk and responsibility for providing construction and repairs of sufficiently high quality to deliver optimal overall life-cycle costs.

On-Time / On-Budget Delivery

- P3 agreements have a strong history of being delivered on schedule and within requirements. Private sector partners are typically incentivized by contract restrictions limiting payments from the public owner to those associated with milestones, opening of a facility to revenue collection, or start of O&M.

Strong Customer Service Orientation

- Effective P3 agreements typically include customer service standards that must be met before the public owner makes O&M or milestone payments. Penalties are applied when those performance measures are not met.

Enables Public Sector to Focus on Outcomes & Core Business

- Properly structured P3s enable governments to focus on outcomes, rather than inputs. Governments can focus leadership attention on the outcome-based public value they are trying to create. Partners respective core competencies are effectively leveraged through properly structured P3 arrangements.

Common Challenges with P3s

Complicated Agreements

- P3 agreements contain many elements that are not found in standard construction contracts such performance requirements for project design, terms of private finance, and definitions of required quality for O&M. The added complexity requires additional attention to detail and process management.

Inadequate Project Screening / Evaluation

- Engineers must define candidate P3 projects carefully, and must be willing to question their viability during screening. Candidate projects must often be re-defined during screening to provide opportunity for private-sector innovation or to re-assign risks. The screening and evaluation process must consider a variety of non-standard factors that will play a role during procurement.

Procurement Schedule

- The procurement schedule typically takes between 24 and 30 months from inception to signatures. During that period, the process must remain transparent to the public, protect certain commercial details of competing companies, and must allow time for detailed proposal preparation.

Commitment to Multi-Year Payments

- Most government administrative and legislative structures are not equipped to handle O&M contracts that last more than 2 or 3 years. These payments often represent a noticeable (if not significant) portion of annual operational budgets, effectively reducing future budgetary flexibility.

Long-term Contract Monitoring and Enforcement

- Consistent enforcement of a contract is not an easy task, especially 20 or more years after the contract first started.

Could P3s Help Fix My Streets?

Probably, but the extent of that help depends on:

- Defining suitable candidate projects (biddable and bankable)
- Defining source of availability payments
- Making a commitment to a long-term contract
- Appropriate legal authority

And – “Help” is a Relative Term

- P3s have a place, but that place isn't everywhere
- It costs money to attract money
- No money is “Free Money”

Could P3s Help Fix My Streets?

Focus on what P3s do very well:

- Improve value for investment
- Provides responsible risk transfer
- Ensures quality and performance
- Leverages existing funds, especially for initial capital needs
- Allows government and private sectors to prioritize improvements that improve future payment availability by growing the tax base

Questions / Discussion